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SUBJECT: SHIPPERS PROPOSE CLIMATE FUND TO AVOID CAP AND
TRADE

1. In May 2009, the Danish Shipowners' Association (DSA) proposed a bunker levy on fuel as an alternative to inclusion of the maritime sector in emissions trading schemes (ETS). Under the proposal, suppliers of bunker fuel would be registered with the administrator of an international fund for greenhouse gas emissions from ships to be established by the IMO. (Note: The fund would be structured along the lines of the International Oil Pollution Compensation funds. End note.) The suppliers would collect a levy or a fee, based on the amount of fuel distributed, and transfer the proceeds to the fund. Proceeds from the fund would be used to finance mitigation and adaptation efforts in the developing world, in conjunction with UNFCCC efforts, as well as research and development of clean energy technologies.

2. Econoff met with DSA representatives on May 21 during EU Maritime Day events in Copenhagen. Although they did not expressly say so, Danish shippers fear that the inclusion of maritime emissions in the EU's ETS would put them at a competitive disadvantage, since "about 2/3 of the merchant vessels fly Annex II flags." Danish ship owners did announce a 15 percent GHG reduction target by 2020, by implementing efficient practices and installing modern technology. However, it will be difficult to exceed this target without overhauling the fleet, which would be prohibitively expensive.

3. DSA stated that a bunker levy is consistent with the IMO's nine fundamental principles for future regulations on GHG emissions from ships (see below) as well as the IMO principle of no favorable treatment, by encouraging shippers to minimize fuel usage while maintaining a level playing field. Further, DSA stated the proposal respects the "common but differentiated responsibilities" standard in that proceeds from the fund would be distributed among developing countries for adaptation and mitigation efforts. DSA also stressed that the levy is not a "tax", since it would not be imposed and collected by governments.

4. Since the IMO operates by consensus, DSA's greatest challenge is to secure the support of China, India, South Africa, and Brazil. DSA hopes the prospects of revenues from the fund will generate support from these countries. One DSA representative stated that Chinese officials have in confidence expressed interest in the proposal but publicly, the Chinese will not take a position in the IMO that

contradicts their stance in the UNFCCC discussions. The IMO's Maritime Environment Protection Committee continues to discuss the proposal, but DSA does not expect any results before COP 15 in Copenhagen, which it hopes will send a clear signal to the IMO.

¶5. In the meantime, an EU Commission official commented on June 9 during the Nor-Shipping conference in Oslo that "immediate action" is required by the industry and that the Commission has a "clear preference" for including the industry in the ETS. However, he later told a reporter that "we would not question the efficacy of a bunker levy over emissions trading if it was global, proven to be efficient and avoided any distortion of competition."

¶6. Comment: Inclusion of the maritime industry in the emissions trading schemes will be difficult to enforce and could distort shipping practices, as ship owners will attempt to circumvent ETS regimes. A bunker fuel levy could be a win-win as it will maintain a level-playing field) an important consideration for developed states) and provide financing for developing states. End comment.

¶7. The IMO's nine fundamental principles for future regulations on GHG emissions from ships are:

- 1) Effective in contributing to the reduction of total global GHG emissions;
- 2) Binding and equally applicable to all flag States in order to avoid evasion;
- 3) Cost effective;
- 4) Able to limit, or at least, effectively minimize competitive distortion;
- 5) Based on sustainable environmental development without penalize global trade and growth;

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- 6) Based on a goal-based approach and not prescribe specific methods;
- 7) Supportive of promoting and facilitating technical innovation and R&D in the entire shipping sector;
- 8) Accommodating to leading technologies in the field of energy efficiency; and
- 9) Practical, transparent, fraud free and easy to administer.

Murray

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